



Tennessee State Board of Accountancy
Department of Commerce and Insurance

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MEETING MINUTES

July 28, 2006

The meeting of the Tennessee State Board of Accountancy convened in the Davy Crockett Tower, Nashville, Tennessee on Friday, July 28, 2006, at 8:30 a.m.

Members present were Doug Warren, Chairman; Kenneth Cozart, Vice-Chair; Stanley Sawyer, Secretary; Joseph Buffler, Lisa Stickel, Terri Jeter-McAvoy, Vic Alexander, and Al Creswell.

Also present were Linda Biek, Executive Director; Stacey Grooms, Staff Counsel; Leona Johnson, Administrative Assistant; Mark Crocker, Investigator; Ethel Mims, Administrative Assistant I; Sara Lena, Regulatory Board Licensing Manager; and Brad Floyd, Executive Director of the TSCPA

Doug Warren called the meeting to order at 8:30 a.m. and ask for a moment of prayer. Mr. Warren welcomed the board members and informed them that the agenda as approved for today's meeting will be absent the three (3) formal hearings.

Mr. Warren made the following announcements:

- 1) Policies will be discussed under old business and should be omitted from individual committee reports.
- 2) Welcome our newest board member Lisa Stickel.
- 3) Linda Biek has been appointed to the AICPA's Practice Analysis Task Force.
- 4) The AICPA's Board of Examiners (BOE) has formed a new regulation committee, which is a task force to determine the formation of the BOE. Any one interested in serving should communicate to Doug Warren or the BOE.
- 5) There were no re-scores on the CPA exam in the last window.
- 6) There has been some difficulty in making hotel reservations downtown and getting the state rate on the rooms. Union Station has been accommodating and offers a state rate of \$75.
- 7) The October meeting has been rescheduled from the 27th to the 23rd.
- 8) The Assistant Commissioners office has issued some guidelines on board culture and how meetings should be conducted:
 - a) Phone calls: Taking calls during the meeting is discouraged; however if you do leave the meeting to take a phone call and miss discussion on an item, you should not include yourself in any vote regarding that item.
 - b) Quorum: if a board member leaves the meeting for any reason and there is no longer a quorum the meeting should be stopped.
 - c) On the record: there should be no side bar discussions between board members, all discussion should be on record.

Stacey Grooms announced that formal hearing #1 as scheduled on the approved agenda was settled with a revocation. Formal hearings #2 and #3 have been rescheduled for the October board meeting.

Mr. Warren asked if there were any items on the Consent Agenda (copy attached) that anyone wanted removed for discussion. *Consent Agenda items: minutes from the April 28, 2006 board meeting, Fraud Risk Assessment, ratification of initial CPA licenses issued during the fiscal year ended June 30, 2006 and the CPA examination statistics.* There being no requests, Joseph Buffler made a motion to approve the Consent Agenda. Kenneth Cozart seconded the motion; it was voted on and approved.

Linda Biek presented the Executive Director's (E.D.) Report: (copy attached)

- 1) Ms. Biek announced the following board meeting dates, asking board members to keep the Thursday before the board meetings open for committee meetings:

2006: Monday, October 23

2007: Friday, January 12

Friday, April 27

Friday, July 27

Friday, October 19

- 2) Report on topics from NASBA Regional Meeting:

Topic: 4th Edition of the UAA

- a) Substantial equivalency and master firm notices;
- b) Education requirements; integrating ethics into the education requirement; and
- c) Emergency Management/Disaster Handbook

NASBA Annual meeting will be in Atlanta in October. Travel requests need to be made ASAP for anyone interested in attending.

- 3) Two candidates sent letters to the board regarding computer problems at the Madison Tennessee testing site. A letter was sent to Prometric expressing concern. Their letter of response indicated one instance was a user computer error and the other one was a software run time error, for which the AICPA is responsible; however, the candidate was not prevented from completing the exam.
- 4) On-line renewals will be available for licensees that renew in 2006. Jody Stone will give the board an update at the October board meeting. In preparing for this process, boards have been instructed to make sure that the paper renewal and the on-line renewal mirror each other and that the boards should renew any individuals who do not answer informational questions and then file a complaint for failure to answer. A recommendation to remove questions that are not statutorily required was presented as a solution to keep the number of complaints down. Joseph Buffler made a motion to approve the recommendation to remove questions that are not statutorily required. Terri Jeter-McAvoy seconded the motion; it was voted on and approved.
- 5) Staggered renewals are required by Tennessee law and will be adopted with the implementation of the new MARS licensing system by June 30, 2007. For the transition, the board must decide what criteria to use; i.e.: birthdates, alphabetical, etc. Stacey Grooms informed the board that the accountancy law is statutorily okay and will not need to be changed to implement staggered renewals; however, the rules include the December 31st date and will require a rule change to remove that date. Title 56 of the Executive Director Authority gives Linda Biek the authority to go forward with the staggered renewal.
- 6) On-line newsletter is a project initiated by the Assistant Commissioner for all Boards. Jody Stone is working with the boards to get this up and running. The first newsletter will be printed and mailed to the licensees as well as being e-mailed to licensees. Future editions will be e-mailed to licensees. Submit articles or ideas for articles to Linda Biek. The first edition goes to print on August 7, 2006.
- 7) Board responsibilities as outlined by the Assistant Commissioner are attached as item #2. Highlighted items include:
- Board members should make decisions in accordance with all applicable laws, policies, rules and procedures; act collectively as a body and not as individuals.
 - Communicate most requests with the Executive Director, Attorney, and/or Assistant Commissioner; members should not contact other staff members directly without copying/notifying the Executive Director to ensure accountability.
 - Discuss, deliberate, and decide on the record.
- 8) Follow up from the April meeting:
- Simulation and scoring errors: A letter was sent to Craig Mills and his response is attached.
 - The reviewer that performed the peer review for Paul Adams has performed many peer reviews without incident. Since the peer review performed was a report review only, the work papers were not reviewed. The deficiencies in Paul Adams work was in the work papers and therefore would not have been detected during the peer review. It is recommended that this matter be closed. The board members agreed to conclude this matter.
 - The Probable Cause Committee can give Stacey Grooms settlement abilities when determining the course of action to take on complaint cases.

- The Q & A sections of the website have been revised and reformatted as requested by the Administrative Committee. Please visit the website to view these pages.
 - At a meeting with a Vanderbilt professor regarding having a student develop a strategic plan for the Board, I learned that there may be a draw back in that the board would not be able to offer the student a job at the conclusion of the project. Research on this process will continue.
- 9) Please complete the conflict of interest forms that have been distributed and hand them in before you leave today.

Doug Warren offered to the board members to entertain a motion to adopt Robert's Rules of Order. Vic Alexander made a motion to adopt Robert's Rules of Order. Kenneth Cozart seconded the motion; it was voted on and approved.

BREAK

Stacey Grooms presented the Attorney's Report:

- Formal Hearing #1 that was scheduled for today has been settled by a revocation. The other two Formal Hearings that were scheduled for today have been rescheduled to October. There may be one additional hearing in October.
- The legal division has implemented a new procedure; a Pre-Notice Notice is now required to be to respondents informing them of what they will be charged with. This notice gives the respondent a 14 day response time.
- The Rules are still pending in the Attorney General's office. A change has been recommended in rule 0020-1-.13 Interstate Practice; to avoid appearing discriminatory the fee should be the same for everyone.

Doug Warren asked the board members to address this issue. After some discussion, Joseph Buffler made a motion to accept the recommendation from the Attorney General's office to charge everyone the same fee, \$50. Vic Alexander seconded the motion; it was voted on and approved.

- To allow staggered renewals, a rule change is required to remove the December 31 date. Please see the attached new proposed rule and the memo of necessity.

Kenneth Cozart made a motion to approve the language of the rule and the memo. Stanley Sawyer seconded the motion; it was voted on and approved.

- Several boards have received exemption from the Audit Act requiring the Audit Charter and the Risk Assessment. A formal letter has been received confirming the Accountancy Board is one of the exempt boards. An in-house Risk Assessment must be created but the Board does not have to report in accordance with the Act.

After much discussion, the board agreed it would be beneficial and maintain high standards to keep the Audit Charter and the Risk Assessment in place.

Stanley Sawyer presented the Probable Cause Committee report: (copy attached)

- 1) Committee Members reviewed 22 cases as presented by Ms. Grooms and held two informal conferences. All recommendations have been discussed and the Probable Cause Committee makes a motion to approve the recommendations. It was voted on and approved.

Doug Warren presented the Executive Committee Report

- 1) "Expert Testimony" is a topic raising questions and concerns, including:
 - The 'practice of public accounting' is now defined as performing 'attest' services or using the CPA credential.
 - In light of that definition, is expert testimony an 'attest' service, is the CPA credential used in expert testimony?
 - Furthermore, Board Policy states that expert testimony in Tennessee is the practice of public accountancy and an Active TN CPA certificate is required.

Linda informed the board that the new proposed policies on today's agenda under Old Business are silent on the issue of expert testimony. Stacy Grooms commented that the Judge should be the one to qualify a person as an expert, not the board. The board should only get involved if the person testifies on attest matters or uses the CPA credential.

- 2) The Committee discussed the budget; however, it will be included in the Finance and Administrative Committee report. Doug Warren and Linda Biek are accepting legislative ideas or thoughts.
- 3) The Committee performed the evaluation of the Executive Director and discussed goals for last year and the upcoming year.

Terri Jeter-McAvoy presented the Finance and Administrative Committee Report: (copy attached)

- 1) The Committee reviewed the proposal for reprinting of the Law and Rule books. The Committee recommends printing 7500 books to be issued to firms only; in addition, have a PDF version available on the website.
- 2) The Committee reviewed the projected budget and note that the 'Unreconciled difference' accounts from May monies that have not been distributed at this time. The Board's legal fees have decreased with Stacey Grooms filling the staff vacancy therefore the Board deficit will be lower than originally anticipated.
- 3) The Committee has reviewed and approved the proposed budget for this year and recommend approval by the full Board.

The budget was discussed and then voted on and approved by the full board.

- 4) The Committee discussed changing the requirement to sit for the CPA examination to require only a Baccalaureate degree; however, 150 semester hours will be required to apply for the CPA certificate. A law change would be required.

The Board agreed not to reject the recommendation. The board will support the TSCPA if they proceed to move forward with the change.

- 5) The Committee recommends the board give the staff approval to image and destroy files of deceased CPAs and CPA files with no activity for seven (7) years.

The Committee's recommendation was voted on and approved.

- 6) The Committee and staff are researching providing substance abuse and mental health services to TN CPA's. An update will be given at the October Board Meeting.

Ken Cozart presented the Licensing Committee Report: (copy attached)

- 1) Approved 1 Tennessee Exempt Organization (TEO) application and denied one TEO application.
- 2) NASBA has issued a new and expanded list of fields of study for CPE courses. The Committee has been trying to figure out where the Board's fields of study fit into these expanded fields. Specialized Knowledge is an especially difficult field to determine if courses in this category should be considered technical or non-technical. The Committee agreed to have the CPA determine if the course is technical or non-technical. However, if the CPE is claimed as technical and then audited and determined to be non-technical, the CPA will be required to make up the CPE hours or the CPA can appeal to the full Board.
- 3) The Committee denied two requests for extension of conditional credit for the exam.
- 4) The Committee determined that the TN Life Insurance Exam does not qualify for CPE credit unless it is given through a registered CPE provider. Successful completion of the exam does not receive the extra credit awarded to Board approved professional designation exams.
- 5) The Committee approved a request for a refund of CPA exam fees paid by a member of the military being deployed to Afghanistan for a two-year period.
- 6) MTSU has a relationship with a private company that offers CPE. The company is not registered with NASBA. For an additional fee, MTSU will issue the attendee a certificate of completion. MTSU does work with the company and performs a service much like NASBA does; however, the CPE course is not offered through MTSU nor is the attendee granted any college credit from MTSU. The Committee recommended the staff write a letter to MTSU expressing our concern over this situation.
- 7) The Committee requested the Board Attorney review the file of a CPA candidate with a felony conviction who has passed all four parts of the exam and give a recommendation as to whether the board should approve the issuance of a CPA certificate to the applicant or deny the application.

The board members discussed 62-1-106(b) regarding the good moral character requirement and 62-1-111 regarding probationary status of licensees. After much discussion, Joseph Buffler made a motion to grant the applicant the CPA certificate on a 5-year probationary status. Any further conviction will be

cause for automatic revocation of the CPA certificate. Vic Alexander seconded the motion; it was voted on and approved.

- 8) Board has issued 148 new CPA certificates (86 Initial and 62 Reciprocal) whose experience and other qualifications have been approved by the Board's staff; 21 of these files have been randomly audited by the Committee Members and are in compliance.

Al Creswell presented the Peer Review Committee Report: (copy attached)

- 1) Twenty-eight (28) new firms have registered since the last board meeting. The Committee did a spot audit of eight (8) of these firms, which were all in compliance with the law and rules for registration.

Mr. Creswell motioned to ratify the approval of the 28 new firms. The motion was voted on and approved.

- 2) There are remaining fifty-four (54) firms, enrolled in the State Board Peer Review Program, with a peer review due by August 31, 2006.
- 3) Twenty-two (22) approved reviews were due to complete the CPE update course for peer review this year. Twenty reviewers have completed the requirement at this time; only two remain due prior to December 31, 2006.
- 4) The Operating Agreement between the State Board and the TSCPA was approved at the April board meeting.

The Committee recommends a wording change on page two, item number two, under Operation and Function; Change "excluding CPAs" to 'exempting CPA firms' in the third line. The recommendation was voted on and approved. The Operating Agreement was signed by Doug Warren, Board Chair; Linda Biek, Executive Director; and Brad Floyd, Executive Director of the Tennessee Society of Certified Public Accountants.

- 5) The Board is currently accepting applications for the East and West Tennessee Members of the PROC. Applications are being accepted through August 15th. The openings have been announced in the TSCPA Journal and on the State Boards website. The Committee recommends Leona send a notice to approved reviewers in East and West Tennessee.
- 6) The staff member of the P.R. Committee (Leona) will be visiting the TSCPA for an Administrative review of how the TSCPA peer review program is administered.
- 7) The Committee received a letter requesting exemption from the policy on firms names; the company is located outside of Tennessee, has three aspiring CPA's employed and uses the term "& Associates" in the firm name. The Committee recommends extension approval through February 1, 2007. The board voted and approved the recommendation.

Old Business:

Marc Cover gave the board members a report regarding the MARS Project and staggered renewals.

At the April meeting, sections of the Policies were assigned to individuals and board members to revise and make recommendations for changes. The revised and recommended policies were included in the Board Member Packets.

Section #1 CPA Examination -- Joseph Buffler made a recommendation to strike the words "charged with or" from policy 1 in section I; it should only be for applicants who have been convicted of a felony.

Section #2 CPE - Kenneth Cozart made a recommendation to keep the old language of policy 2 under section II and to add the policy regarding specialized knowledge as follows: **"It is the responsibility of the CPA to determine if a course is a technical subject when the field of study is classified as Specialized Knowledge. If the CPA claims a course as a technical subject and in the course of an audit it is determined to be non-technical then the CPA shall have the option to appeal to the board and present evidence of why the course should be considered technical. If the course is ruled to be non-technical on the appeal, the licensee shall complete the applicable technical make up hours of CPE if this causes the licensee to fail to meet the CPE reporting requirement."**

Section #3 Definition of Accountancy - Doug Warren made a recommendation to change the word "reinstate" in policy 1 of section III to "reinstatement."

Section #4 Interstate Practice – Linda Biek recommends accepting the policies as written.

Section #5 Registered Firms - Bill Underwood sent an e-mail recommendation to accept the policies as written.

Section #6 Enforcement - Stanley Sawyer made a recommendation to amend Appendix A by increasing the civil penalty for practicing on an expired license to \$500 per year; increasing the civil penalty for practicing on an inactive license to \$500 per year; and increasing the civil penalty for failure to respond to a complaint to \$500 and schedule an informal conference if no response within 60 days.

Section #7 Other Administrative Matters - Terry Jeter-McAvoy recommends changing the language in policy 9 in section VII to replace "random number generator" with Statistical Sampling Method.

Vic Alexander made a motion to accept the policy revisions as amended. Stanley Sawyer seconded the motion; it was voted on and approved.

New Business:

Mr. Warren recognized Brad Floyd, Executive Director of the TSCPA in attendance and gave Mr. Floyd the opportunity to address the Board.

Joseph Buffler motioned to approve the Audit Charter amendments. Stanley Sawyer seconded the motion; it was voted on and approved.

Mr. Warren asked the Board if anyone had any suggestions for the October meeting. The Board agreed to leave the meeting agenda as a one day meeting; however the board members will leave Tuesday open just in case. Linda will reserve the meeting room for Tuesday as well.

There being no further business to come before the Board, Doug Warren adjourned the meeting.

CHAIRMAN

SECRETARY

Copies attached:

- Board Meeting Agenda
- Consent agenda
 - ✓ April 28, 2006 minutes
 - ✓ Fraud Risk Assessment
- Executive Director's Report
- Probable Cause Committee Report
- Finance & Administrative Committee Report
- Licensing Committee Report
- Peer Review Committee Report
- Old Business Documentation: Policy Manual